

**MINUTES OF MEETING**  
**STATE OF WISCONSIN**  
**EMPLOYEE TRUST FUNDS BOARD**

**Friday, September 27, 2002**

**Sheraton Madison Hotel**  
**706 John Nolen Drive**  
**Madison, Wisconsin**

**BOARD PRESENT:**

Marilyn Wigdahl, Chair  
Wayne Koessler, Vice-Chair  
Robert Niendorf, Secretary  
John Brown  
Sherry Brown  
Stephen Frankel  
James Gruentzel  
Irena Macek  
Wayne McCaffery  
Cynthia Van Bogaert  
Nancy Thompson  
John Vincent (*representing Peter Fox*)

**BOARD NOT PRESENT:**

None

**PARTICIPATING ETF STAFF:**

Eric Stanchfield, Secretary  
Dave Mills, Deputy Secretary  
Julie Reneau, Administrator, Division of Retirement Services  
Christina Licari, Board Liaison  
Pam Henning, Director, Office of Strategic Services  
Tom Korpady, Administrator, Division of Insurance Services  
Shelly Schueller, Office of the Secretary  
Robert Weber, Chief Counsel

**OTHERS PRESENT:**

Marcia Blumer, Department of Employee Trust Funds  
Kendra Eppler, Legislative Audit Bureau  
Bill Ford, Legislative Council  
Steve Grob, Department of Employee Trust Funds  
Jane Hamblen, Department of Justice  
Dave Hinrichs, Department of Employee Trust Funds  
Nancy Ketterhagen, Department of Employee Trust Funds  
Jon Kranz, Department of Administration  
Helen Malzacher, Department of Employee Trust Funds  
Paul Ostrowski, Department of Employment Relations  
Linda Owen, Department of Employee Trust Funds  
Vicki Poole, Department of Employee Trust Funds  
Mel Sensenbrenner, State Engineering Association  
Vicki Wickliffe, Department of Employee Trust Funds  
Bob Willett, Department of Employee Trust Funds  
Kari Zika, Department of Employee Trust Funds

Ms. Wigdahl called the meeting to order at 8:33 a.m.

### **CONSIDERATION OF MINUTES OF JUNE 21, 2002 MEETING – OPEN SESSION**

***Motion: Mr. Gruentzel moved approval of the open session minutes of the June 21, 2002, meeting as submitted by staff. Ms. Brown the motion, which passed without objection on a voice vote.***

*A question regarding the closed session minutes was raised; therefore, consideration of the closed session minutes was postponed until the beginning of the closed session meeting.*

### **2003 MEETING DATES**

The following meeting dates were proposed for 2003:

Thursday, Friday	March 20-21, 2003 (Sheraton Madison Hotel)
Thursday, Friday	June 19-20, 2003 (Sheraton Madison Hotel)
Thursday, Friday	September 25-26, 2003 (Sheraton Madison Hotel)
Thursday, Friday	December 11-12, 2003 (Sheraton Madison Hotel)

It was noted that both the Wisconsin Retirement Board and the Teachers Retirement Board had approved the dates as proposed during their meetings on Thursday, September 26, 2002.

***Motion: Ms. Thompson moved approval of the 2003 meeting dates. Mr. Frankel seconded the motion, which passed without objection on a voice vote.***

### **RETIREMENT STATISTICS REPORT**

Ms. Schueller reviewed the *WRS Retirement Benefit and WRS Disability Benefit Annuity Statistical Report* for June, July and August 2002. Ms. Schueller noted that there is a new category included in the report that breaks state and local employer retirements into separate totals. This change was made as a result of requests at the June 2002 meetings.

### **ACTUARIAL REPORT**

***Motion: Ms. Brown moved acceptance of the WRS Gain/Loss Analysis of Experience Among Active Members During Calendar Year 2001 presented by Brian Murphy, actuary from Gabriel, Roeder, Smith and Company (GRS), on Thursday, September 26, 2002. Ms. Thompson seconded the motion, which carried without objection on a voice vote.***

### **FUTURE ANNUITY DIVIDEND THRESHOLDS**

Ms. Reneau presented a memorandum submitted to the Board by Norm Jones and Brian Murphy, actuaries from Gabriel, Roeder, Smith & Company (GRS), regarding the annual dividend process and thresholds for paying or taking back fixed dividends in the fixed trust. Ms. Reneau noted that the current threshold for paying fixed dividends is 2% as defined by statute. She also noted that there is no current threshold for taking back fixed dividends. The statutes leave the policy of taking back dividends to the discretion of the Employee Trust Funds (ETF) Board.

The record includes a memorandum from GRS discussing the actuarial effects. From an actuarial perspective, GRS recommended that the Board consider establishing a policy

indicating that previously granted dividends not be rolled back unless the ratio of assets to liabilities falls below 98%, and that any potential rollback be applied in a manner consistent with the application of the dividend process as reasonable and as possible (i.e., the greater the “symmetry,” the better).

Mr. Murphy noted for the record that while this is the actuarial recommendation of GRS, the firm could not speak to the legal or fiduciary issues that may be involved. He also noted for the record that if the Board decided to take back previously granted dividends (i.e., not establish a 2% negative threshold), it would result in decreases in monthly annuities for some individuals but would be actuarially sound as well.

Mr. Weber noted that the suggestion before the Board was to adopt a policy guideline which would not be binding on any future Board. He also added that the Board could alternatively decide to promulgate an administrative rule that would be binding on a future Board, unless revised by a future Board.

Another option presented to the Board was to seek a legislative change in the statute. The legislative history as to why there is a 2% threshold for increases, but not for decreases, is not clear. It is not clear whether this was intended or an oversight by the legislature.

The Board discussed at length the possible ramifications and long-term effects of setting a negative threshold, specifically as such action relates to the fiduciary duty of the Board. The Board expressed concern that by not passing on small losses to annuitants right away, larger decreases may be needed in the future as well as concerns that this action would benefit one group of participants while negatively affecting another group. The Board noted that the statutory language clearly does not include a downside threshold. The Board asked staff if there were compelling administrative reasons for making the change. Staff indicated there were none. Board members requested that at the next meeting more information about the history and purpose of the 2% payment threshold and possible long-term effects of setting a negative threshold be presented.

When asked, Mr. Murphy confirmed that the Board would not be acting against actuarial advice if it decided to pass on all negative dividends.

***Motion: Ms. Van Bogaert moved that the Board pass losses through and not establish a downward threshold. Mr. Gruentzel seconded the motion, which passed with a majority on the following roll-call vote:***

***Members voting aye: J. Brown, S. Brown, Vincent, Frankel, Gruentzel, Koessl, Macek, Thompson and Van Bogaert***

***Members voting nay: McCaffery and Niendorf***

## **BUDGET UPDATE**

Ms. Henning was available to answer questions regarding the budget update that had been presented at the Joint Informational Meeting on Thursday, September 26, 2002.

## **GROUP INSURANCE BOARD UPDATE**

Mr. Korpady presented a verbal report on the highlights of the Group Insurance Board (GIB) meeting on August 27, 2002. Mr. Korpady noted that the 2003 HMO premium rates increased by an average of 13.5%; however, the Department's efforts during the negotiation process saved approximately \$5 million in premium increases. Other items of note included: the GIB's approval of a slight reduction in premiums for the State Life Insurance Program (for specific age groups); the GIB's decision to purchase a one-time premium life insurance program from Minnesota Life to cover the Milwaukee Teachers Death Benefit Program; and, the GIB's approval of the addition of a stop-loss limit of \$500,000 per death for the State Group Life Insurance Program. The GIB also approved the Long-Term Disability Insurance Program annual valuation by Deloitte & Touche and approved a recommendation to extend the election schedule until January 3, 2005.

## **COMMUTER BENEFIT PROGRAM**

Mr. Korpady presented information regarding the Commuter Benefit Program for state and university employees and requested that the Board approve the proposed fee structure that will be used to assess employers for program implementation and administrative costs.

***Motion: Mr. Brown moved to approve the funding methodology as recommended by staff. Ms. Brown seconded the motion, which carried without objection on a voice vote.***

## **LONG-TERM DISABILITY INSURANCE RATES REPORT**

Mr. Korpady discussed the *Long-Term Disability Insurance Rates Report*, which was submitted to the Board for review. The assets in this program have grown substantially. For the past several years, there has been a premium holiday that continues through 2003. Mr. Korpady noted that the item only required action if the Board did not agree to accept the premium holiday.

## **MISCELLANEOUS**

### ***Pending Appeals Status Report***

Included for the Board's information. It was noted that this report now combines statistics from the Wisconsin Retirement Board, Teachers Retirement Board and ETF Board. Open ETF appeals are down 37% from the beginning of 2002.

### ***Wisconsin Ethics Board Letter***

Included for the Board's information. Secretary Stanchfield noted that the State of Wisconsin Ethics Board had communicated with Cynthia Van Bogaert regarding her membership on the Board. The Ethics Board takes the position that Ms. Van Bogaert's participation on the ETF Board is acceptable with the exception of rulemaking. Consequently, Ms. Van Bogaert will recuse herself from participating in votes that involve administrative rulemaking. She further asked that the chair and ETF staff call her attention to any discussion or action involving rulemaking.

### ***Employee Reimbursement Accounts Program***

Included for the Board's information. Ms. Reneau noted that the administrative fee for the Employee Reimbursement Account Program would be \$.50 per health insurance contract per month.

### **Audit Reports**

Included for the Board's information. Ms. Reneau noted that there were three audits completed by internal audit staff. The three reports were: *Enumeration Verification System Joint Survivor – Phase I, Death Match Process and Pilot Audits*. Ms. Wickliffe and Ms. Malzacher were in the audience and available to answer questions.

### **Fact Sheets**

Included for the Board's information. The most current versions of all Department fact sheets were included in the Board packets. A replacement copy of the Wisconsin Retirement System fact sheet was distributed at the meeting correcting an error that was detected in the previous version.

### **Award Presentation**

Secretary Stanchfield congratulated Ms. Van Bogaert and presented her with a plaque awarded to her for completing the Certificate of Achievement in Public Plan Policy (CAPPP) courses and comprehensive examination offered by the International Foundation of Employee Benefit Plans. The CAPPP program curriculum examines the full scope of subjects relating to the governance of public employee pension plans.

*The Board took a break at 10:28.*

### **MOTION TO CONVENE IN CLOSED SESSION**

Ms. Wigdahl announced that the ETF Board would convene in closed session pursuant to exemptions contained in Wis. Stats. § 19.85 (1)(a), (e), (f) and (g) for quasi-judicial deliberations, deliberations involving the expenditure of public funds, consultation with legal counsel and consideration of financial and/or medical records involving annuity applications. ETF staff were invited to remain during deliberations involving all topics except quasi-judicial deliberations. Mr. Ostrowski and Ms. Licari were invited to remain during all parts of the closed session.

***Motion: Mr. Brown moved to convene in closed session pursuant to exemptions contained in Wis. Stats. § 19.85 (1)(a), (e), (f) and (g) for quasi-judicial deliberations, deliberations involving the expenditure of public funds, consultation with legal counsel and consideration of financial and/or medical records involving annuity applications. Mr. McCaffery seconded the motion, which passed without objection on the following roll call vote.***

***Members voting aye: J. Brown, S. Brown, Frankel, Gruentzel, Koessl, Macek, McCaffery, Niendorf, Thompson, Vincent and Wigdahl***

***Members voting nay: none***

The ETF Board convened in closed session at 10:38 a.m. and reconvened in open session at 11:40 a.m.

### **ANNOUNCEMENT OF ACTION TAKEN ON BUSINESS DELIBERATED ON DURING CLOSED SESSION**

Ms. Wigdahl announced that the Board took the following action during the closed session:

- The Board conferred with legal counsel.

- **Appeal 99-022-ETF.** The Board adopted the hearing examiner's proposed decision.
- **Appeal 2000-015-ETF.** The Board adopted the hearing examiner's proposed decision with regard to findings of fact and conclusions of law with amendments to the proposed decision as recommended by counsel.

**ADJOURNMENT**

***Motion: Mr. Gruentzel moved adjournment. Mr. McCaffery seconded the motion, which passed without objection on a voice vote.***

The ETF Board adjourned at 11:42 p.m.

Date Approved: \_\_\_\_\_

Signed: \_\_\_\_\_

Robert Niendorf  
Secretary